

CRITTENDEN COUNTY BOARD OF EDUCATION

FINANCIAL REPORT

June 30, 2005

E DENNIS DRIVER

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee For School District Audits
Members of the Board of Education
Crittenden County Board of Education
Marion, Kentucky

I have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Crittenden County Board of Education as of and for the year ended June 30, 2005, as listed in the table of contents. These basic statements are the responsibility of the Crittenden County Board of Education's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Crittenden County Board of Education as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and the Major Special Revenue Fund, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued reports dated September 13, 2005, on my consideration of Crittenden County Board of Education's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in considered in assessing the results of my audit.

The management's discussion and analysis presented on pages 5 through 9 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Crittenden County Board of Education's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic

Kentucky State Committee For School District Audits
Members of the Board of Education
Crittenden County Board of Education
September 13, 2005
Page 2

financial statements of the Crittenden County Board of Education. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, I express no opinion on it.

A handwritten signature in black ink, appearing to read "E. Dennis Jones". The signature is written in a cursive style with a large, prominent initial "E".

September 13, 2005
Paducah, Kentucky

JOHN BELT
SUPERINTENDENT

MRS. PHYLLIS ORR
CHAIRPERSON

MR. RONALD HOWTON
VICE-CHAIRMAN

MR. WILLIAM ASBRIDGE
BOARD MEMBER

MRS. TINA HARRIS
BOARD MEMBER

MR. CHRISTOPHER COOK
BOARD MEMBER



Crittenden County Schools

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REBECCA TYNER-BELT
INSTRUCTIONAL SUPERVISOR 6-12
DIRECTOR OF PROFESSIONAL DEVELOPMENT
PUBLIC RELATIONS

AL STARNES
DIRECTOR OF PUPIL SERVICES/TRANSPORTATION

RAMONA FORD
SPECIAL EDUCATION DIRECTOR/ESS

BRENT HIGHFIL
SCHOOL BUSINESS OFFICIAL/CFO

TERESA FOSTER
CHIEF INFORMATION OFFICER/IVOC. ED.

DEPEKA CROFT
DISTRICT ASSESSMENT COORDINATOR

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) **YEAR ENDED JUNE 30, 2005**

As management of the Crittenden County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

MISSION:

The staff of Crittenden County School District pledges to provide resources and support to eliminate learning barriers in order to promote the highest possible academic achievement for all students.

BELIEF STATEMENTS:

1. The Crittenden County School District will provide an environment in which everyone feels safe, challenged, and inspired to succeed.
2. Instruction will be student focused with active learning experiences, which challenge students, teachers, and community to meet or exceed academic expectations.
3. An exemplary teacher shall be knowledgeable of both subject matter and teaching/learning styles. Each teacher will deliver energetic, entertaining, student-focused instruction utilizing the latest technology and educational research. Teachers should be consistent and conscientious of their students' well being by being a mentor who is community oriented.
 - a. Distinguished teaching styles
 - b. Technology driven
 - c. Active Learning
 - d. Safe and aesthetic Learning Environment
 - e. Engaged and inspired learners and educators
 - f. Student focused
 - g. Involved community
 - h. Positive attitude, moral and inquisitive learners
4. An exemplary school maintains community involvement by providing a variety of opportunities to form lasting partnerships that will enhance positive attitudes and values toward education.
5. The Crittenden County School District provides opportunities for students to become life-long learners. The skills are developed through enriched activities that stimulate intellectual curiosity and afford opportunities to model successful independent learning.

"The staff of Crittenden County School District pledges to provide resources to eliminate barriers in order to promote the highest possible academic achievement for all students."

**CRITTENDEN COUNTY PUBLIC SCHOOL DISTRICT –MARION, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2005**

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$1.1 million.
- The District experienced abnormal increases in legal services from \$12 thousand to \$43 thousand.
- The board substantially completed a construction project to erect lighting on the soccer field for \$66 thousand.
- The District spent over \$329 thousand dollars on utilities and fuel, as energy costs continue to rise; this was a 5% increase over the prior fiscal year.
- Due to the increase of interest rates, interest income increased \$12 thousand; that is a 62 percent increase from the prior fiscal year.
- The General Fund had \$6.6 million in revenue (excluding on-behalf payments), which primarily consisted of the state program (SEEK), property, local occupational license taxes, utilities, and motor vehicle taxes. There were \$6.4 million in General Fund expenditures (excluding on-behalf payments). This resulted in spending \$200 thousand dollars less than was receipted, increasing the District's reserves. This is a positive reversal of the trend of previous years.
- Bonds are issued as the district renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The district's total debt decreased by \$575 thousand during the current fiscal year. The District still owes in excess of \$7.7 million and will have retired that debt if no additional bonds are issued in the year 2024.
- The District continues to reap the benefits from the annual attendance incentive. Substitute costs fell 12 percent District wide at a savings of \$23 thousand. The General Fund realized \$49 thousand savings, which is a 37 percent decrease in substitute costs.
- State law requires districts to update a priority list of construction and renovation needs, called a local facilities plan, every four years. The document guides the allocation of School Facilities Construction Commission dollars.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 10 and 11 of this report.

**CRITTENDEN COUNTY PUBLIC SCHOOL DISTRICT –MARION, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2005**

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our childcare and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 12 through 22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 36 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$4.85 million as of June 30, 2005.

The largest portion of the District’s net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District’s financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2005

Comparative information for the current and prior year is presented below.

	June 30, 2005	2004	Increase (Decrease)
Current Assets	\$ 1,718,220	1,790,712	\$ (72,492)
Noncurrent Assets, net of accumulated depreciation	<u>11,758,880</u>	<u>12,032,676</u>	<u>(273,796)</u>
Total Assets	<u>\$ 13,477,100</u>	<u>\$ 13,823,388</u>	<u>\$ (346,288)</u>
Current Liabilities	\$ 869,289	929,118	\$ (59,830)
Noncurrent Liabilities	<u>7,762,409</u>	<u>8,176,082</u>	<u>(413,673)</u>
Total Liabilities	<u>\$ 8,631,698</u>	<u>\$ 9,105,200</u>	<u>\$ (473,503)</u>
Net Assets			
Investment in capital assets, net of debt	3,645,721	3,490,645	155,076
Restricted	186,588	143,721	42,867
Unreserved fund balance	<u>1,013,093</u>	<u>1,083,822</u>	<u>(70,729)</u>
Total Net Assets	<u>\$ 4,845,402</u>	<u>\$ 4,718,188</u>	<u>\$ 127,214</u>

**CRITTENDEN COUNTY PUBLIC SCHOOL DISTRICT –MARION, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2005**

Comments on Budget Comparisons

- The District’s total revenues for the fiscal year ended June 30, 2005, net of interfund transfers, were \$6.6 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$200 thousand more than budgeted.
- The total cost of all programs and services, including depreciation, was \$10.7 million net of debt service.

The following table presents a summary of revenue and expense for the fiscal years ended June 30, 2005 and 2004.

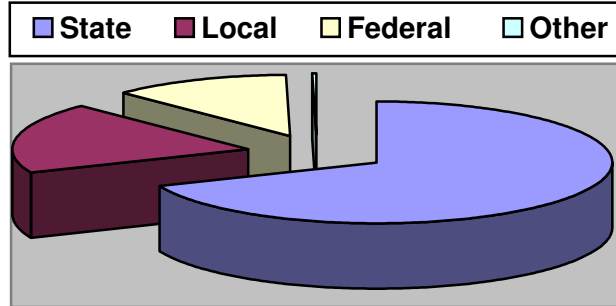
	Year Ended June 30, 2005	2004	Increase (Decrease)
Revenues:			
Local revenue sources	\$ 1,883,252	\$ 1,765,408	\$ 117,844
State revenue sources	5,601,454	5,594,644	6,810
On-behalf payments	1,264,408	1,200,028	64,380
Federal revenue	1,230,329	1,028,663	201,666
Other Sources	<u>17,215</u>	<u>35,742</u>	<u>(18,527)</u>
Total Revenues	9,996,658	9,624,485	372,173
Expenses:			
Instruction	5,405,339	5,296,507	108,832
Student Support Services	489,163	523,244	(34,081)
Instructional Staff Support	637,122	600,926	36,196
District Administration	312,347	410,542	(98,195)
School Administration	577,116	509,647	67,469
Business Support	185,106	179,990	5,116
Plant Operations	758,484	784,257	(25,773)
Student Transportation	540,773	573,188	(32,415)
Food Service Operations	-	54,778	(54,778)
New Building Construction	-	-	-
Site Improvement	87,858	4,647	83,211
Central Office Support	51,279	52,578	(1,299)
Community Activities	109,230	111,365	(2,135)
Debt Service	<u>615,380</u>	<u>592,878</u>	<u>22,502</u>
Total Expenses	9,769,197	9,694,547	74,650
Revenue in Excess (Deficit) of Expenses	<u>\$ 227,461</u>	<u>\$ (70,062)</u>	<u>\$ 297,523</u>

Amounts for the year ended June 30, 2005 include \$1,264,408 in revenues and expenses for on-behalf payments made for medical insurance and pension contributions for certified staff by the Commonwealth of Kentucky. For comparative purposes, amounts for the year ended June 30, 2004 have been adjusted to reflect similar items totaling \$1,200,028.

**CRITTENDEN COUNTY PUBLIC SCHOOL DISTRICT –MARION, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2005**

General Fund Revenue Chart 1.

The majority of revenue was derived from state funding 69% with local taxes making up 19% of total revenue. Federal and other revenue contributed 12% of total revenue.



BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district complied with this requirement.

Questions regarding this report should be directed to the Superintendent (270) 965-2281 or to Brent Highfil, Chief Financial Officer (270) 965-2281 or by mail at 601 West Elm, Marion, KY 42064.

CRITTENDEN COUNTY BOARD OF EDUCATION

STATEMENTS OF NET ASSETS

June 30, 2005

ASSETS	Governmental Activities	Business-Type Activities	Total
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,674,292	\$ 193,785	\$ 1,868,077
Inventory	-	10,335	10,335
Accounts receivable			
Taxes - current	-	-	-
Taxes - delinquent	-	-	-
Accounts receivable	-	-	-
Intergovernmental - State	-	-	-
Intergovernmental - Indirect Federal	43,928	-	43,928
TOTAL CURRENT ASSETS	1,718,220	204,120	1,922,340
NONCURRENT ASSETS			
Capital assets	18,382,447	162,542	18,544,989
Less accumulated depreciation, computed by the straight-line method	(6,641,909)	(143,907)	(6,785,816)
KISTA insurance reserve	5,053	-	5,053
Bond issue costs, net of amortization	13,289	-	13,289
TOTAL NONCURRENT ASSETS	11,758,880	18,635	11,777,515
TOTAL ASSETS	\$ 13,477,100	\$ 222,755	\$ 13,699,855
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 20,537	\$ 2,022	\$ 22,559
Deferred revenue	194,093	-	194,093
Current portion of bond obligations	460,000	-	460,000
Current portion of capital lease obligations	50,094	-	50,094
Current portion of accrued sick leave	73,986	-	73,986
Interest payable	70,579	-	70,579
TOTAL CURRENT LIABILITIES	869,289	2,022	871,311
NONCURRENT LIABILITIES			
Noncurrent portion of bond obligations	7,270,000	-	7,270,000
Noncurrent portion of capital lease obligations	319,776	-	319,776
Noncurrent portion of accrued sick leave	172,633	12,224	184,857
TOTAL NONCURRENT LIABILITIES	7,762,409	12,224	7,774,633
TOTAL LIABILITIES	8,631,698	14,246	8,645,944
Net Assets			
Invested in capital assets, net of related debt	3,645,721	18,635	3,664,356
Restricted for:			
Capital projects	-	-	-
Debt service	-	-	-
Other purposes (nonexpendable)	186,588	-	186,588
Unrestricted	1,013,093	189,874	1,202,967
	4,845,402	208,509	5,053,911
TOTAL NET ASSETS	\$ 13,477,100	\$ 222,755	\$ 13,699,855

The Notes to Financial Statements are an integral part of this statement.

CRITTENDEN COUNTY BOARD OF EDUCATION

STATEMENTS OF ACTIVITIES
Year Ended June 30, 2005

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental Activities							
Instruction	\$ 5,762,050	\$ 7,014	\$ 1,067,193	\$ -	\$ (4,687,843)	\$ -	\$ (4,687,843)
Support Services							
Student	489,525	-	29,640	-	(459,885)	-	(459,885)
Instruction Staff	692,171	-	311,552	-	(380,619)	-	(380,619)
District administrative	310,524	-	52,235	-	(258,289)	-	(258,289)
School administrative	569,418	-	33,983	-	(535,435)	-	(535,435)
Business	175,111	-	-	-	(175,111)	-	(175,111)
Plant operation and maintenance	714,351	-	-	-	(714,351)	-	(714,351)
Student transportation	643,775	-	21,324	-	(622,451)	-	(622,451)
Central office	51,327	-	49,569	-	(1,758)	-	(1,758)
Facilities acquisition and construction	87,858	-	-	-	(87,858)	-	(87,858)
Food Service	-	-	-	-	-	-	-
Community service activities	109,247	-	87,750	-	(21,497)	-	(21,497)
Interest on long-term debt	378,524	-	-	-	(378,524)	-	(378,524)
Amortization	1,476	-	-	-	(1,476)	-	(1,476)
TOTAL GOVERNMENTAL ACTIVITIES	9,985,357	7,014	1,653,246	-	(8,325,097)	-	(8,325,097)
BUSINESS-TYPE ACTIVITIES							
Food Service	679,419	274,235	380,003	-	-	(25,181)	(25,181)
Day care	40,007	31,490	350	-	-	(8,167)	(8,167)
TOTAL BUSINESS-TYPE ACTIVITIES	719,426	305,725	380,353	-	-	(33,348)	(33,348)
TOTAL PRIMARY GOVERNMENT	\$ 10,704,783	\$ 312,739	\$ 2,033,599	\$ -	\$ (8,325,097)	\$ (33,348)	\$ (8,358,445)

GENERAL REVENUES

Taxes			
Property taxes	\$ 1,154,431	\$ -	\$ 1,154,431
Motor vehicle taxes	247,877	-	247,877
Utility taxes	352,371	-	352,371
Omitted, penalties and interest	1,270	-	1,270
Interest income	29,297	3,188	32,485
State and formula grants	6,774,352	-	6,774,352
Gain on sales of fixed assets	7,626	-	7,626
Donated assets	16,302	-	16,302
Miscellaneous	98,006	-	98,006
Total General and Special	8,681,532	3,188	8,684,720
Change in net assets	356,435	(30,160)	326,275
Net assets - beginning	4,488,967	238,669	4,727,636
Net assets - ending	\$ 4,845,402	\$ 208,509	\$ 5,053,911

The Notes to Financial Statements are an integral part of this statement.

CRITTENDEN COUNTY BOARD OF EDUCATION

BALANCE SHEETS GOVERNMENTAL FUNDS June 30, 2005

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS AND RESOURCES				
Cash and cash equivalents	\$ 1,514,490	\$ 159,802	\$ -	\$ 1,674,292
Inventory	-	-	-	-
Accounts receivable				-
Taxes - current	-	-	-	-
Taxes - delinquent	-	-	-	-
Accounts receivable	-	-	-	-
Intergovernmental - State	-	-	-	-
Intergovernmental - Indirect Federal	-	43,928	-	43,928
Prepaid Expenses	-	-	-	-
Due from other funds	-	-	-	-
Interest receivable	-	-	-	-
Investments	-	-	-	-
TOTAL ASSETS AND RESOURCES	<u>\$ 1,514,490</u>	<u>\$ 203,730</u>	<u>\$ -</u>	<u>\$ 1,718,220</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 10,900	\$ 9,637	\$ -	\$ 20,537
Accrued payroll and related expenses	-	-	-	-
Current portion of accrued sick leave	-	-	-	-
Deferred revenue	-	194,093	-	194,093
Due to other funds	-	-	-	-
TOTAL LIABILITIES	10,900	203,730	-	214,630
FUND BALANCES				
Reserved for:				
Inventory and fixed assets	-	-	-	-
Site-based carryover	50,997	-	-	50,997
Accrued sick leave	126,864	-	-	126,864
SFCC	8,727	-	-	8,727
Unreserved:				
General fund	1,317,002	-	-	1,317,002
Special revenue funds	-	-	-	-
Capital projects funds	-	-	-	-
Debt service funds	-	-	-	-
TOTAL FUND BALANCES	<u>1,503,590</u>	<u>-</u>	<u>-</u>	<u>1,503,590</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,514,490</u>	<u>\$ 203,730</u>	<u>\$ -</u>	<u>\$ 1,718,220</u>

The Notes to Financial Statements are an integral part of this statement.

CRITTENDEN COUNTY BOARD OF EDUCATION

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEETS WITH THE DISTRICT-WIDE STATEMENTS OF NET ASSETS June 30, 2005

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENTS OF NET ASSETS ARE DIFFERENT BECAUSE:

Total governmental fund balance \$ 1,503,590

Capital assets used in governmental activities are not financial
resources and therefore are not reported as assets in the
governmental funds.

Cost of capital assets	18,382,447	
Accumulated depreciation	(6,641,909)	
KISTA insurance reserve	5,053	
Bond issue costs, net of amortization	<u>13,289</u>	11,758,880

Long-term liabilities (including bonds payable) are not due and
payable in the current period and therefore are not reported
as liabilities in the governmental funds. Long-term liabilities,
at year end, consist of:

Bonds payable	(7,730,000)	
Accrued interest on bonds	(70,579)	
Capital leases payable	(369,870)	
Accrued sick leave	<u>(246,619)</u>	<u>(8,417,068)</u>

TOTAL NET ASSETS, DISTRICT-WIDE \$ 4,845,402

CRITTENDEN COUNTY BOARD OF EDUCATION

COMBINED STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General Fund	Special Revenue (Grant Funds)	Other Governmental Funds	Total Government Funds
REVENUES				
From local sources				
Taxes				
property	\$ 986,842	\$ -	\$ 167,589	\$ 1,154,431
motor vehicle	247,877	-	-	247,877
utility	352,371	-	-	352,371
omitted, penalties and interest	1,270	-	-	1,270
Tuition and fees	7,614	-	-	7,614
Earnings on investments	28,355	942	-	29,297
Food Service	2,105	-	-	2,105
Contributions	-	-	-	-
Other local revenues	47,455	40,832	-	88,287
Intergovernmental - intermediate	-	-	-	-
Intergovernmental - state	4,910,388	381,142	309,924	5,601,454
Intergovernmental - state on-behalf payments	1,264,408	-	-	1,264,408
Intergovernmental - indirect federal	-	1,230,329	-	1,230,329
Intergovernmental - direct federal	7,014	-	-	7,014
Other	-	-	-	-
TOTAL REVENUES	<u>7,855,699</u>	<u>1,653,245</u>	<u>477,513</u>	<u>9,986,457</u>
EXPENDITURES				
Current				
Instruction	4,321,399	1,083,940	-	5,405,339
Support services				
Student	459,523	29,640	-	489,163
Instructional staff	325,571	311,551	-	637,122
District administrative	260,112	52,235	-	312,347
School administrative	543,133	33,983	-	577,116
Business	185,106	-	-	185,106
Plant operation and maintenance	758,484	-	-	758,484
Student transportation	519,449	21,324	-	540,773
Central office	1,710	49,569	-	51,279
Facilities acquisition/site improvements	64,150	-	23,708	87,858
Food service operation	-	-	-	-
Community service activities	21,480	87,750	-	109,230
Student activities	-	-	-	-
Education specific	-	-	-	-
Other, debt service	39,887	-	575,493	615,380
	<u>7,500,004</u>	<u>1,669,992</u>	<u>599,201</u>	<u>9,769,197</u>
Excess of revenues over (under) expenditures	355,695	(16,747)	(121,688)	217,260
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	-
Proceeds from sale of fixed assets	10,201	-	-	10,201
Operating transfers in	-	16,747	599,201	615,948
Operating transfers out	<u>(138,435)</u>	<u>-</u>	<u>(477,513)</u>	<u>(615,948)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(128,234)</u>	<u>16,747</u>	<u>121,688</u>	<u>10,201</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing sources	227,461	-	-	227,461
FUND BALANCES, beginning	<u>1,276,129</u>	<u>-</u>	<u>-</u>	<u>1,276,129</u>
FUND BALANCES, ending	<u>\$ 1,503,590</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,503,590</u>

The Notes to Financial Statements are an integral part of this statement.

CRITTENDEN COUNTY BOARD OF EDUCATION

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of net assets are different because:

Net change in total fund balances per fund financial statements	\$	227,461
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Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation for the year.

Capital outlays, net of non-cash acquisitions	192,489	
Depreciation	(607,236)	
Undepreciated basis of assets sold	<u>(2,575)</u>	(417,322)

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net assets

Bond payments	295,215	
Capital lease payments	<u>37,275</u>	332,490

In the statement of activities, certain operating expenses such as compensated absences are measured by the amounts earned or accrued during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This year, the differences between the amounts accrued and the financial resources used are:

Interest expense	(88,970)	
Amortization	(1,476)	
Sick leave	<u>(43,456)</u>	(133,902)

In the statement of activities, certain revenues are recognized when earned. In the governmental funds, revenues are recognized when financial resources are provided. This year, revenue earned exceeded financial resources by:

Donated assets recognized as a contribution	16,301	
SFCC debt service contributions	<u>331,407</u>	347,708

Change in net assets of governmental activities	\$	<u>356,435</u>
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CRITTENDEN COUNTY BOARD OF EDUCATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2005

	Budget			Variance
	Original	Final	Actual	Favorable (Unfavorable)
RESOURCES (INFLOWS)				
From local sources				
Taxes, property	\$ 942,658	\$ 950,406	\$ 986,842	\$ 36,436
motor vehicles	215,000	220,000	247,877	27,877
utility	300,000	300,846	352,371	51,525
omitted, penalties and interest	-	1,563	1,270	(293)
Tuition and fees	10,000	10,000	7,614	(2,386)
Earnings on investments	10,000	8,000	28,355	20,355
Food Service	1,500	1,620	2,105	485
Other	-	31,366	47,455	16,089
Intergovernmental, state	4,647,802	4,866,476	4,910,388	43,912
Intergovernmental, federal	9,000	9,000	7,014	(1,986)
Other	-	-	-	-
TOTAL REVENUES	6,135,960	6,399,277	6,591,291	192,014
USES (OUTFLOWS)				
Current				
Instruction	3,669,732	3,624,544	3,385,915	238,629
Support services				
Student	396,186	389,648	386,993	2,655
Instructional staff	296,389	302,675	279,407	23,268
District administration	494,866	624,015	244,878	379,137
School administration	521,832	574,650	543,133	31,517
Business services	179,341	173,614	166,753	6,861
Plant operation and maintenance	732,593	733,772	698,149	35,623
Student transportation	513,817	519,963	441,368	78,595
Central office	-	2,000	1,710	290
Site improvement	65,443	74,303	64,150	10,153
Debt Service	54,887	39,887	39,887	-
Contingency	250,000	368,282	-	-
	7,175,086	7,427,353	6,252,343	806,728
Excess of sources of funds over (under) uses of funds	(1,039,126)	(1,028,076)	338,948	998,742
Other Financing Sources (Uses)				
Bond proceeds	-	-	-	-
Sale of assets	-	500	10,201	9,701
Operating transfers in	-	-	-	-
Operating transfers out	(97,583)	(121,689)	(121,688)	1
	(97,583)	(121,189)	(111,487)	9,702
Excess (deficit) of sources (inflows) and other financing sources over uses (outflows) and other financing sources	(1,136,709)	(1,149,265)	227,461	1,376,726
FUND BALANCE, beginning	1,136,709	1,149,265	1,276,129	126,864
FUND BALANCE, ending	\$ -	\$ -	\$ 1,503,590	\$ 1,503,590

The Notes to Financial Statements are an integral part of this statement.

CRITTENDEN COUNTY BOARD OF EDUCATION

BUDGETARY COMPARISON SCHEDULE (continued) GENERAL FUND Year Ended June 30, 2005

Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) available from the budgetary comparison schedule	\$ 6,591,291
Differences - budget to GAAP	
On-behalf payments made by the Commonwealth of Kentucky for medical insurance premiums and pension contributions for certified personnel are not budgeted	<u>1,264,408</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	<u>\$ 7,855,699</u>

Uses/outflows of resources

Actual amounts (budgetary basis) "total uses/outflows" from the budgetary comparison schedule	\$ 6,252,343
Differences - budget to GAAP	
On-behalf payments made by the Commonwealth of Kentucky for medical insurance premiums and pension contributions for certified personnel are not budgeted	1,264,408
Interfund transfer included in expense on budgetary comparison schedule	<u>(16,747)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance - governmental funds	<u>\$ 7,500,004</u>

The Notes to Financial Statements are an integral part of this statement.

CRITTENDEN COUNTY BOARD OF EDUCATION

BUDGETARY COMPARISON SCHEDULE SPECIAL REVENUE FUND Year Ended June 30, 2005

	Original	Budget Final	Actual	Variance Favorable (Unfavorable)
REVENUES				
From local sources				
Earnings on investments	\$ -	\$ -	\$ 942	\$ 942
Other local revenues	102,691	102,691	40,832	(61,859)
Intergovernmental - state	373,628	373,628	381,142	7,514
Intergovernmental - indirect federal	<u>1,113,331</u>	<u>1,113,331</u>	<u>1,230,329</u>	<u>116,998</u>
TOTAL REVENUES	1,589,650	1,589,650	1,653,245	63,595
EXPENDITURES				
Current				
Instruction	1,014,851	1,014,851	1,083,940	(69,089)
Support services				
Student	89,940	89,940	29,640	60,300
Instructional staff	279,354	279,354	311,551	(32,197)
District administration	51,658	51,658	52,235	(577)
School administration	17,492	17,492	33,983	(16,491)
Student transportation	21,351	21,351	21,324	27
Central office	44,001	44,001	49,569	(5,568)
Community service activities	<u>87,750</u>	<u>87,750</u>	<u>87,750</u>	<u>-</u>
	<u>1,606,397</u>	<u>1,606,397</u>	<u>1,669,992</u>	<u>(63,595)</u>
Excess of revenues over (under) expenditures	(16,747)	(16,747)	(16,747)	-
Other Financing Sources (Uses)				
Operating transfers in	16,747	16,747	16,747	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>16,747</u>	<u>16,747</u>	<u>16,747</u>	<u>-</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing sources	-	-	-	-
FUND BALANCE, beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Notes to Financial Statements are an integral part of this statement.

CRITTENDEN COUNTY BOARD OF EDUCATION

COMBINED STATEMENTS OF NET ASSETS PROPRIETARY FUNDS June 30, 2005

	Food Service Fund	FYRSC Day Care	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 186,252	\$ 7,533	\$ 193,785
Inventory	<u>10,335</u>	<u>-</u>	<u>10,335</u>
TOTAL CURRENT ASSETS	<u>196,587</u>	<u>7,533</u>	<u>204,120</u>
NONCURRENT ASSETS			
Furniture and equipment	162,542	-	162,542
Less accumulated depreciation, computed by the straight-line method	<u>(143,907)</u>	<u>-</u>	<u>(143,907)</u>
TOTAL NONCURRENT ASSETS	<u>18,635</u>	<u>-</u>	<u>18,635</u>
TOTAL ASSETS	<u>\$ 215,222</u>	<u>\$ 7,533</u>	<u>\$ 222,755</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 2,022	\$ -	\$ 2,022
TOTAL CURRENT LIABILITIES	2,022	-	2,022
NON-CURRENT LIABILITIES			
Non-current portion of accrued sick leave	<u>12,224</u>	<u>-</u>	<u>12,224</u>
TOTAL NON-CURRENT LIABILITIES	12,224	-	12,224
NET ASSETS			
Invested in capital assets, net of related debt	18,635	-	18,635
Unrestricted	<u>182,341</u>	<u>7,533</u>	<u>189,874</u>
	<u>200,976</u>	<u>7,533</u>	<u>208,509</u>
TOTAL NET ASSETS	<u>\$ 215,222</u>	<u>\$ 7,533</u>	<u>\$ 222,755</u>

The Notes to Financial Statements are an integral part of this statement.

CRITTENDEN COUNTY BOARD OF EDUCATION

COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS Year Ended June 30, 2005

	Food Service Fund	FYRSC Day Care	Total
OPERATING REVENUES			
Lunchroom sales	\$ 274,235	\$ -	\$ 274,235
Other operating revenues	<u>-</u>	<u>31,490</u>	<u>31,490</u>
Total operating revenues	274,235	31,490	305,725
OPERATING EXPENSES			
Salaries and Wages	219,162	29,416	248,578
Employee benefits	109,838	3,247	113,085
Purchased professional and technical services	19,789	-	19,789
Materials and supplies	325,222	6,926	332,148
Depreciation	4,139	-	4,139
Other operating expenses	<u>1,269</u>	<u>418</u>	<u>1,687</u>
Total operating expenses	679,419	40,007	719,426
OPERATING INCOME (LOSS)	(405,184)	(8,517)	(413,701)
NON-OPERATING REVENUES			
Federal grants	269,061	-	269,061
Donated commodities	32,270	350	32,620
State grants	78,672	-	78,672
Interest income	<u>3,188</u>	<u>-</u>	<u>3,188</u>
Total non-operating revenues	383,191	350	383,541
Other financing sources (uses)			
Operating transfers (in)	-	-	-
Operating transfers (out)	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	-	-	-
NET INCOME	(21,993)	(8,167)	(30,160)
RETAINED EARNINGS, beginning	<u>222,969</u>	<u>15,700</u>	<u>238,669</u>
RETAINED EARNINGS, ending	<u>\$ 200,976</u>	<u>\$ 7,533</u>	<u>\$ 208,509</u>

The Notes to Financial Statements are an integral part of this statement.

CRITTENDEN COUNTY BOARD OF EDUCATION

COMBINED STATEMENTS OF CASH FLOWS PROPRIETARY FUNDS Year Ended June 30, 2005

	Food Service Fund	FYRSC Day Care	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from:			
Lunchroom sales	\$ 274,235	\$ -	\$ 274,235
Government grants	276,752	350	277,102
Other activities	-	31,490	31,490
Cash paid to/for:			
Employees	(245,795)	(32,663)	(278,458)
Supplies	(289,578)	(6,926)	(296,504)
Fixed assets	(8,412)		
Other activities	(21,058)	(418)	(21,476)
Net cash used by operating activities	(13,856)	(8,167)	(22,023)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	3,188	-	3,188
Net decrease in cash and cash equivalents	(10,668)	(8,167)	(18,835)
CASH AND CASH EQUIVALENTS, July 1, 2004	196,920	15,700	212,620
CASH AND CASH EQUIVALENTS, June 30, 2005	<u>\$ 186,252</u>	<u>\$ 7,533</u>	<u>\$ 193,785</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating (loss)	\$ (25,181)	\$ (8,167)	\$ (33,348)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	4,139	-	4,139
Change in assets and liabilities			
Inventory	3,805	-	3,805
Fixed assets	(8,412)	-	(8,412)
Accounts payable	(431)	-	(431)
Accrued sick leave	12,224	-	12,224
Net cash used by operating activities	<u>\$ (13,856)</u>	<u>\$ (8,167)</u>	<u>\$ (22,023)</u>
Schedule of non-cash transactions:			
Donated commodities received from the U.S. Department of Agriculture	<u>\$ 32,270</u>	<u>\$ -</u>	<u>\$ 32,270</u>
Payments made on-behalf of the Board by the Commonwealth of Kentucky	<u>\$ 70,981</u>	<u>\$ -</u>	<u>\$ 70,981</u>

The Notes to Financial Statements are an integral part of this statement.

CRITTENDEN COUNTY BOARD OF EDUCATION

STATEMENTS OF FIDUCIARY NET ASSETS AGENCY FUNDS June 30, 2005

	<u>2005</u>
	<u>Activity Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 105,295</u>
TOTAL ASSETS	<u>\$ 105,295</u>
LIABILITIES	
Due to student groups	<u>\$ -</u>
TOTAL LIABILITIES	<u>-</u>
NET ASSETS HELD IN TRUST	<u>\$ 105,295</u>

The Notes to Financial Statements are an integral part of this statement.

CRITTENDEN COUNTY BOARD OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS Year ended June 30, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Crittenden County Board of Education (Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Crittenden County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, and the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Crittenden County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself, such as Band Boosters, Parent-Teachers Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or are dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing Board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Crittenden County School District Finance Corporation: In a prior year, the Board formed the Crittenden County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board members of the Crittenden County Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationships between government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

CRITTENDEN COUNTY BOARD OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS, continued Year ended June 30, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Financial Statements — Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 42 through 43. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by the Proprietary Fund).
 - a. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - b. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - c. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction
- D. Debt Service Funds – The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky statute.

II. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

CRITTENDEN COUNTY BOARD OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS, continued Year ended June 30, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

II. Proprietary Fund Types (Enterprise Fund), continued

- B. The FYRSC Day Care Fund is used to account for the operation of the after-school child care services.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues — Exchange and Non-exchange Transactions — Revenue resulting from exchange transactions in which each party receives essentially equal value is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue — Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures — On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

CRITTENDEN COUNTY BOARD OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS, continued Year ended June 30, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Property Taxes

Property Tax Revenues — Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2005, to finance the General Fund operations were \$.402 per \$100 of valuation for real property and business personal property and \$.541 per \$100 of valuation for motor vehicles.

The District levies a 3% gross utility receipts license tax for receipts derived from furnishing, within the county, telephone and telegraph communications services, cable television services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are expensed as incurred.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Government Activities Estimated Lives</u>
Buildings and improvements	25 - 50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5 - 10 years
Audio-visual equipment	15 years
Food service equipment	10 - 12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

CRITTENDEN COUNTY BOARD OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS, continued Year ended June 30, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School Districts past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. The food service fund uses the specific identification method.

CRITTENDEN COUNTY BOARD OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS, continued Year ended June 30, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2005 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Investments

The permanent funds record investments at their quoted market value prices for purposes of the Statement of Net Assets. All realized gains and losses and changes in fair value are recorded in the Statement of Activities. Long-term investments are not recorded on the fund financial statements nor are unrealized gains and losses.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

CRITTENDEN COUNTY BOARD OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS, continued Year ended June 30, 2005

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction. There were no contributions to capital during the fiscal year.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B: ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C: BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the Board's future obligations to make lease payments relating to the bonds issued by the Crittenden County School District Finance Corporation, aggregating \$10,937,217.

The original amount of each issue, the issue date and interest rates are summarized below:

1992	\$ 1,795,000	3.000% - 5.500%
1996	\$ 975,000	4.000% - 5.300%
1998	\$ 1,430,000	3.700% - 4.500%
1998	\$ 1,655,000	4.874% average
2000	\$ 795,000	5.375% average
2001	\$ 4,290,000	2.500% - 4.750%
2003	\$ 415,000	3.100%

The Board, through the General Fund, the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) and the Facility Support Program Levy Fund (FSPK) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Crittenden County School District Finance Corporation to construct school facilities. The Board has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The Board has entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bond issues.

CRITTENDEN COUNTY BOARD OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS, continued Year ended June 30, 2005

NOTE C: BONDED DEBT AND LEASE OBLIGATIONS, continued

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the Board, including amounts to be paid by the Commission, at June 30, 2005 for debt service (principal and interest) are as follows:

Year Ended June 30,	Board Obligations		SFCC Obligations		Total
	Principal	Interest	Principal	Interest	
2006	\$ 319,333	\$ 264,424	\$ 140,667	\$ 81,035	\$ 805,459
2007	332,298	249,361	147,702	75,790	805,151
2008	343,856	233,561	151,144	70,132	798,693
2009	357,561	216,899	157,439	64,133	796,032
2010	385,275	199,480	164,725	57,691	807,171
2011	292,160	180,656	172,840	50,772	696,428
2012	230,638	166,852	114,362	45,102	556,954
2013	237,594	156,830	107,406	40,622	542,452
2014	250,007	146,414	89,993	36,266	522,680
2015	261,036	135,006	93,964	32,295	522,301
2016	276,834	123,026	98,166	28,094	526,120
2017	287,361	110,225	102,639	23,621	523,846
2018	302,604	96,660	107,396	18,863	525,523
2019	279,673	80,400	85,327	13,842	459,242
2020	290,688	67,386	89,312	9,857	457,243
2021	306,459	53,577	93,541	5,629	459,206
2022	320,472	39,039	74,528	1,733	435,772
2023	325,000	23,869	-	-	348,869
2024	340,000	8,075	-	-	348,075
	<u>\$ 5,738,849</u>	<u>\$ 2,551,740</u>	<u>\$ 1,991,151</u>	<u>\$ 655,477</u>	<u>\$ 10,937,217</u>

Kentucky Interlocal School Transportation Association (KISTA)

In December, 2001 the Board entered into capital lease agreements with the Kentucky Interlocal School Transportation Association (KISTA) for the lease of school buses. The original amount of the December, 2001 lease, which was for two buses, was \$111,781. In March, 2004 the Board entered into a capital lease arrangement with KISTA for two buses. The amount of that lease is \$138,677. In January, 2005 the Board entered into a capital lease arrangement with KISTA for two buses. The amount of that lease is \$123,143.

The Board entered into a lease/purchase agreement, dated December 19, 2004, with Dell Financial Services for the acquisition of thirty laptop computers. The original amount of the lease is \$19,920, which is due in three annual payments of \$6,664 and a final payment of \$1,307. There is a \$1 purchase option, which the District expects to exercise, at the end of the lease.

CRITTENDEN COUNTY BOARD OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS, continued Year ended June 30, 2005

NOTE C: BONDED DEBT AND LEASE OBLIGATIONS, continued

The minimum future rental payments as of June 30, 2005 are as follows:

Year Ended June 30,	Buses			Computers			Total Lease Payments
	Principal	Interest	Buses Total	Principal	Interest	Computers Total	
2006	\$ 44,312	\$ 12,436	\$ 56,748	\$ 5,782	\$ 882	\$ 6,664	\$ 63,412
2007	43,456	10,756	54,212	6,167	497	6,664	60,876
2008	42,504	9,365	51,869	1,307	87	1,394	53,263
2009	43,928	7,958	51,886	-	-	-	51,886
2010	43,320	6,458	49,778	-	-	-	49,778
2011	43,678	4,941	48,619	-	-	-	48,619
2012	33,426	3,351	36,777	-	-	-	36,777
2013	25,853	2,172	28,025	-	-	-	28,025
2014	24,354	1,280	25,634	-	-	-	25,634
2015	11,783	427	12,210	-	-	-	12,210
	<u>\$ 356,614</u>	<u>\$ 59,144</u>	<u>\$ 415,758</u>	<u>\$ 13,256</u>	<u>\$ 1,466</u>	<u>\$ 14,722</u>	<u>\$ 430,480</u>

NOTE D: CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the Board's cash and cash equivalents was \$1,978,560. The bank balance for cash and cash equivalents was \$2,382,473. Deposits were held in two financial institutions located in Crittenden County, Kentucky. Of the total cash balance, \$214,551 was covered by Federal depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the Board's name.

Cash is shown in the financial statements as:

Government funds	\$ 1,674,292
Proprietary funds	193,785
Agency funds	<u>110,483</u>
	<u>\$ 1,978,560</u>

NOTE E: RETIREMENT PLANS

Plan Description – The Crittenden County Board of Education contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost sharing, multiple-employer, defined benefit pension plan. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 164 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

CRITTENDEN COUNTY BOARD OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS, continued **Year ended June 30, 2005**

NOTE E: RETIREMENT PLANS, continued

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program that pays for salaries also pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four-year college degree or certification by the Kentucky Department of Education (KDE).

The District's payroll for employees covered by KTRS was \$4,931,049 for 2005 and \$4,914,859 for 2004. For the year ended June 30, 2005, the Commonwealth of Kentucky contributed \$560,658 to KTRS for the benefit of the participating employees. The District's contributions to KTRS for the year ending June 30, 2005 were \$85,556, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS). Funding for the Plan is provided through payroll withholdings of 5% and a Board contribution of 7.34% of the employee's total compensation subject to the contribution. The Board's contribution requirement to CERS for the year ended June 30, 2005, was \$172,880, which consisted of \$108,755 from the Board and \$64,125 from employees. Payroll for the year ended June 30, 2005 subject to CERS was \$1,282,497. Benefits under both plans will vary based on final compensation, year of service and other factors as fully described in the Plan documents.

In addition, KRS 161.555 requires that school districts employing members whose positions were established by the federal government to contribute an amount equal to the member's contribution. Matching contributions paid by the Board are shown above.

Additional information and historical trend information can be obtained from the separately issued Teacher Retirement System of Kentucky Comprehensive Annual Report.

NOTE F: DEFERRED COMPENSATION PLANS

The Board offers deferred compensation plans, which were created in accordance with Internal Revenue Code Sections 401(k), 403(b) and 457 and traditional IRAs, to its employees.. The plans, which are available to all Board employees, permit them to defer a portion of their salary until future year. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The Board funds all amounts of compensation deferred under the plan, at the direction of the covered employees, through commercial administrators.

NOTE G: CONTINGENCIES

The Board receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the Board for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Board's grant programs is predicated upon the grantors' satisfaction that the funds provided are being used as intended and the grantor's intent to continue their programs.

NOTE H: INSURANCE AND RELATED ACTIVITIES

The Board is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The Board has purchased certain policies that are retrospectively rated, which include worker's compensation insurance.

CRITTENDEN COUNTY BOARD OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS, continued **Year ended June 30, 2005**

NOTE I: ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, a certified employee with over 27 year of service or a classified employee with over 20 year of service will receive from the Board an amount equal to 30% of the value of accumulated sick leave.

NOTE J: RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the Board participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school Boards and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association.

The Board pays an annual premium to each fund for coverage. Contributions to the Worker's Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a prorata basis.

The Board purchases unemployment insurance through commercial carriers. In addition, the Board continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three year.

NOTE K: COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school Board at risk for a substantial loss (contingency).

NOTE L: DEFICIT OPERATING/FUND BALANCES

There are no funds of the Board that currently have a deficit fund balance.

CRITTENDEN COUNTY BOARD OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS, continued Year ended June 30, 2005

NOTE M: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 is:

Governmental Activities	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
Land	\$ 79,422	\$ -	\$ -	\$ 79,422
Land improvements	6,168	-	-	6,168
Buildings and improvements	14,908,671	65,982	-	14,974,653
Technology equipment	1,409,158	144,407	(165,837)	1,387,728
Vehicles	1,603,928	118,947	(175,300)	1,547,575
Furniture, fixtures and equipment	368,506	18,395	-	386,901
Totals, at historical cost	18,375,853	347,731	(341,137)	18,382,447
Less accumulated depreciation				
Land improvements	231	308	-	539
Buildings and improvements	3,961,384	360,128	-	4,321,512
Technology equipment	1,116,429	119,404	(163,188)	1,072,645
Vehicles	1,142,514	98,483	(175,300)	1,065,697
Furniture, fixtures and equipment	152,603	28,913	-	181,516
Total accumulated depreciation	6,373,161	607,236	(338,488)	6,641,909
Governmental Activities, Net Capital Assets	<u>\$ 12,002,692</u>	<u>\$ (259,505)</u>	<u>\$ (2,649)</u>	<u>\$ 11,740,538</u>
Business-Type Activities				
Food service equipment	\$ 136,449	\$ -	\$ -	\$ 136,449
Building and improvements	4,373	-	-	4,373
Vehicles	3,635	-	-	3,635
Technology equipment	9,672	8,413	-	18,085
Totals, at historical cost	154,129	8,413	-	162,542
Less accumulated depreciation				
Food service equipment	130,697	-	-	130,697
Building and improvements	160	-	-	160
Vehicles	666	-	-	666
Technology equipment	8,244	4,138	-	12,382
Total accumulated depreciation	139,767	4,138	-	143,905
Business-Type Activities, Net Capital Assets	<u>\$ 14,362</u>	<u>\$ 4,275</u>	<u>\$ -</u>	<u>\$ 18,637</u>

CRITTENDEN COUNTY BOARD OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS, continued Year ended June 30, 2005

NOTE M: CAPITAL ASSETS, continued

Depreciation expense has been allocated to governmental functions as follows:

Instruction	\$ 431,588
Student support services	428
Instructional staff	13,875
District administration	18,661
School administration	17,146
Plant operations	26,409
Student transportation	94,801
Central office	48
Community services	<u>4,280</u>
	<u>\$ 607,236</u>

NOTE N: INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2005.

NOTE O: DONATED ASSETS

During the fiscal year ended June 30, 2005, the Board received donated assets, primarily technology equipment. The estimated value at the dates of contribution was \$16,302. This amount has been reported in the government-wide statements as a contribution and the assets capitalized in accordance with the Board's capitalization policies.

NOTE P: INTERFUND TRANSFERS

The following interfund transfers were made during the year:

Type	From Fund	To Fund	Purpose	
Operating	General Fund	Special Revenue	KETS Transfer	\$ 16,747
Operating	Capital Projects	Debt Service	Debt Service	356,163
Operating	General Fund	Construction	Transfer	23,708
Operating	General Fund	Debt Service	Debt Service	97,980
Operating	Capital Projects	Debt Service	Debt Service	<u>121,350</u>
				<u>\$ 615,948</u>

NOTE Q: ON-BEHALF PAYMENTS

The Commonwealth of Kentucky contributes funds on behalf of the Crittenden County Board of Education for medical insurance and pension contributions. The School Facilities Construction Commission contributes funds for the retirement of bonds and payment of interest on behalf of the Board. These amounts are reported as additional expenses and revenues in the district-wide statements. Insurance and related payments and pension contributions are included in the fund statements; contributions by the School Facilities Construction Commission are not recorded in the fund statements. Contributions made on behalf of the Board for the year ended June 30, 2005 were:

CRITTENDEN COUNTY BOARD OF EDUCATION

NOTES TO THE FINANCIAL STATEMENTS, continued Year ended June 30, 2005

NOTE Q: ON-BEHALF PAYMENTS, continued

Commonwealth of Kentucky	
Insurance and related payments	\$ 703,750
Pension contributions	560,658
School Facilities Construction Commission	
Contributed for bond retirement	239,785
Contributed for interest payments	<u>91,622</u>
Total on-behalf payments	<u>\$ 1,595,815</u>

NOTE R: PENDING AND POTENTIAL LITIGATION

PENDING LITIGATION

The Board is a defendant in a civil action brought by a former superintendent. The former superintendent claims the Board breached her employment contract and denied her due process. The Board, in its responses, has asserted that due process hearings were offered and refused by the plaintiff and the Board acted within the constraints of the employment contract in dismissing the former superintendent for cause, which is sufficient grounds for dismissal under the employment contract.

The Board will defend its position vigorously. The action is being defended under the District's self-insured insurance plan administered by the Kentucky School Boards Insurance Trust (KSBIT). This matter is currently pending in Crittenden Circuit Court. Although the Board believes it will prevail, and intends to contest any action vigorously, the outcome cannot be determined and the potential liability and attorney fees regarding the defense of the lawsuit are unliquidated.

The Board is also a defendant in a civil action brought by a former employee who alleges that her employment was wrongfully terminated due to age and disability discrimination. A motion for summary judgment has been filed by the Board's attorney but not ruled upon at the date of these financial statements. The suit is scheduled for trial on November 28, 2005 in U.S. District Court in Paducah, Kentucky.

The Board intends to vigorously defend itself in this matter; however, the outcome cannot be predicted. The Board participates in the Kentucky School Board Insurance Trust, which should cover any cost and expenses of the litigation after payment of the self-insured retention, subject to the applicable limit provided by the KSBIT trust agreement.

POTENTIAL LITIGATION

The Board has retained counsel in the matter of suspected substandard concrete used in the Crittenden County High School gymnasium, known as "Rocket Arena." A contaminate, which causes extensive cracking and, ultimately, structural breakdown, has been identified in the sidewalks and it is believed there is a substantial chance that the same contaminate is contained in the foundation and structure of the building.

Correspondence has been exchanged with the concrete supplier; however, according to the Board's counsel in this matter, it appears unlikely that any pre-filing settlement will be reached. If an out-of-court settlement cannot be reached, the Board intends to file suit for legal remedies.

ACCOMPANYING INFORMATION

CRITTENDEN COUNTY BOARD OF EDUCATION

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005

	Technology Fund	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Construction Fund	Total Nonmajor Governmental Funds
ASSETS AND RESOURCES						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Inventory	-	-	-	-	-	-
Accounts receivable						
Taxes - current	-	-	-	-	-	-
Taxes - delinquent	-	-	-	-	-	-
Accounts receivable	-	-	-	-	-	-
Intergovernmental - State	-	-	-	-	-	-
Intergovernmental - Indirect Federal	-	-	-	-	-	-
Prepaid expenses	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-
Interest receivable	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Furniture and equipment, net	-	-	-	-	-	-
TOTAL ASSETS AND RESOURCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued payroll and related expenses	-	-	-	-	-	-
Current portion of accumulated sick leave	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Reserved for:						
Inventory and fixed assets	-	-	-	-	-	-
Encumbrances	-	-	-	-	-	-
Accrued sick leave	-	-	-	-	-	-
Unreserved:						
Undesignated, reported in:						
General fund	-	-	-	-	-	-
Special revenue funds	-	-	-	-	-	-
Capital projects funds	-	-	-	-	-	-
Debt service funds	-	-	-	-	-	-
TOTAL FUND BALANCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CRITTENDEN COUNTY BOARD OF EDUCATION

COMBINED STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	Technology Fund	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Construction Fund	Total Nonmajor Governmental Funds
REVENUES						
From local sources						
Taxes						
Property	\$ -	\$ 167,589	\$ -	\$ -	\$ -	\$ 167,589
Motor vehicle	-	-	-	-	-	-
Utilities	-	-	-	-	-	-
Tuition and fees	-	-	-	-	-	-
Earnings on investments	-	-	-	-	-	-
Contributions	-	-	-	-	-	-
Other local revenues	-	-	-	-	-	-
Intergovernmental - intermediate	-	-	-	-	-	-
Intergovernmental - state	-	188,574	121,350	-	-	309,924
Intergovernmental - indirect federal	-	-	-	-	-	-
Intergovernmental - direct federal	-	-	-	-	-	-
TOTAL REVENUES	-	356,163	121,350	-	-	477,513
EXPENDITURES						
Instruction	-	-	-	-	-	-
Support Services	-	-	-	-	-	-
Student	-	-	-	-	-	-
Instructions staff	-	-	-	-	-	-
Direct administrative	-	-	-	-	-	-
School administrative	-	-	-	-	-	-
Business	-	-	-	-	-	-
Plant operation and maintenance	-	-	-	-	-	-
Student transportation	-	-	-	-	-	-
Central office	-	-	-	-	-	-
Facilities and construction	-	-	-	-	23,708	23,708
Community service activities	-	-	-	-	-	-
Other	-	-	-	575,493	-	575,493
TOTAL EXPENDITURES	-	-	-	575,493	23,708	599,201
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	-	356,163	121,350	(575,493)	(23,708)	(121,688)
Other Financing Sources (Uses)						
Proceeds from sale of bonds	-	-	-	-	-	-
Proceeds from sale of fixed assets	-	-	-	-	-	-
Realized gains and losses and changes in market value	-	-	-	-	-	-
Operating transfers in	-	-	-	575,493	23,708	599,201
Operating transfers out	-	(356,163)	(121,350)	-	-	(477,513)
TOTAL OTHER FINANCING SOURCES (USES)	-	(356,163)	(121,350)	575,493	23,708	121,688
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	-	-	-	-	-
FUND BALANCE, beginning	-	-	-	-	-	-
FUND BALANCE, ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CRITTENDEN COUNTY BOARD OF EDUCATION

STATEMENTS OF REVENUES, EXPENDITURES AND FUND BALANCE EXPENDABLE TRUST FUNDS CRITTENDEN COUNTY HIGH SCHOOL ACTIVITY FUNDS Year Ended June 30, 2005

Name of Fund	Cash Balance July 1, 2004	Receipts	Disburse- ments	Cash Balance June 30, 2005	Accounts Receivable	Accounts Payable	Fund Balance
Academic Award Banquet	\$ 7	\$ 1,705	\$ 1,661	\$ 51	\$ -	\$ -	\$ 51
Academic Team	33	130	23	140	-	-	140
Annual	9,099	23,126	23,968	8,257	-	-	8,257
Athletic Department	-	8,443	8,443	-	-	-	-
Band	152	1,481	1,334	299	-	-	299
Baseball	262	2,962	1,277	1,947	-	-	1,947
Beta Club	467	624	811	280	-	-	280
Boys' Basketball	2,027	14,998	14,862	2,163	-	-	2,163
Cheerleaders	1,903	17,038	16,198	2,743	-	-	2,743
Chorus	-	632	501	131	-	-	131
Class Field Trip, 2009	-	825	-	825	-	-	825
Cross Country / Track	21	-	-	21	-	-	21
Chess	55	125	-	180	-	-	180
Donation from Joey Warner	124	393	63	454	-	-	454
Driver's Education	145	1,945	1,880	210	-	-	210
Faculty Club	523	1,711	1,241	993	-	-	993
Fellowship of Christian Athletes	1,055	405	403	1,057	-	-	1,057
Football	982	34,303	33,316	1,969	-	-	1,969
Future Business Leaders	116	700	778	38	-	-	38
Future Educators America	261	1,125	770	616	-	-	616
Future Farmers of America	2,357	26,997	25,509	3,845	-	-	3,845
Family Career Community Leader	211	5,644	5,462	393	-	-	393
General Fund	2,391	12,714	10,460	4,645	-	-	4,645
Girls' Basketball	1,741	10,520	10,328	1,933	-	-	1,933
Golf	31	-	-	31	-	-	31
Grand March	715	899	838	776	-	-	776
Guidance	65	363	388	40	-	-	40
Jenkins Scholarship	-	3,000	3,000	-	-	-	-
Junior Class Trip	-	1,019	859	160	-	-	160
Library Bookstore	1,085	1,160	895	1,350	-	-	1,350
Milk Machine	-	3,255	3,255	-	-	-	-
Office Operations	75	350	99	326	-	-	326
Poster Machine	-	422	54	368	-	-	368
Prom	992	3,400	2,727	1,665	-	-	1,665
S.A.D.D.	531	1,071	-	1,602	-	-	1,602
School Store	66	-	50	16	-	-	16
School Jacket	546	1,236	848	934	-	-	934
Security/Parking	821	481	583	719	-	-	719
Senior Class Trip	112	17,343	17,303	152	-	-	152
Softball	-	24	-	24	-	-	24
Soccer	30	208	72	166	-	-	166
Speech	37	1,352	1,366	23	-	-	23
Student Technology Leadership	761	1,599	1,349	1,011	-	-	1,011
Student Council	957	1,355	1,226	1,086	-	-	1,086
Technology Students Association	246	2,505	883	1,868	-	-	1,868
Young Politicians	595	460	348	707	-	-	707
Young Republicans	1	-	-	1	-	-	1
TOTALS	\$ 31,598	\$ 210,048	\$ 195,431	\$ 46,215	\$ -	\$ -	\$ 46,215

CRITTENDEN COUNTY BOARD OF EDUCATION

STATEMENTS OF REVENUES, EXPENDITURES AND FUND BALANCE EXPENDABLE TRUST FUNDS CRITTENDEN COUNTY MIDDLE SCHOOL AND ELEMENTARY SCHOOL ACTIVITY FUNDS Year Ended June 30, 2005

School	Cash Balance July 1, 2004	Receipts	Disburse- ments	Cash Balance June 30, 2005	Accounts Receivable	Accounts Payable	Fund Balance
Crittenden County Middle	<u>\$ 34,186</u>	<u>\$ 70,159</u>	<u>\$ 76,265</u>	<u>\$ 28,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,080</u>
Crittenden County Elementary	<u>\$ 24,894</u>	<u>\$ 52,039</u>	<u>\$ 40,745</u>	<u>\$ 36,188</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,188</u>

CRITTENDEN COUNTY BOARD OF EDUCATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Award	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION				
Passed through the Kentucky Department of Education				
Title I, FY 2005	84.010	4500-3105	\$ 727,237	\$ 429,774
Title I, FY 2004	84.010	4500-3104	436,269	57,995
Title I, FY 2003	84.010	4500-3103	397,354	21,215
Perkins Oracle Grant	84.048	4500-3485H	9,950	9,648
Special Education, Preschool, FY 2005	84.027	4500-3375	258,355	288,355
Special Education, Preschool, FY 2004	84.027	4500-3374	258,263	7,848
Special Education, Preschool	84.173	4500-3435	17,327	17,027
Perkins, Title I, Part C	84.173	4500-3484A	697	697
Vocational Education, Title I	84.173	4500-3485	21,236	19,248
Title IV, Safe & Drug Free Schools, FY 2004	84.186	4500-4065	11,730	11,222
Even Start Program, FY 2004	84.314	4500-3234	85,750	25,123
Even Start Program, FY 2003	84.314	4500-3235	90,000	60,967
Title V, Innovative	84.298	4500-3345	8,669	6,469
Title II-D, Education Technology	84.318	4500-4255	11,724	11,724
Title II-D, Education Technology	84.318	4500-4254	11,078	849
Rural Education, Title VI	84.358	4500-3505	63,823	37,239
Rural Education, Title VI	84.358	4500-3504	35,708	13,494
Improving Teacher Quality, RAP Grant	84.358	4500-3874A	42,983	24,267
Improving Teacher Quality	84.336	4500-4013	109,467	21,459
Improving Teacher Quality	84.336	4500-4014	112,994	30,229
Improving Teacher Quality	84.336	4500-3874A	109,467	108,976
Total passed through the Kentucky Department of Education			<u>\$ 2,820,081</u>	<u>\$ 1,203,825</u>
Passed through the West Kentucky Cooperative Migrant Program, Fy 2005	84.140	4500-3115	\$ 10,622	\$ 10,622
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 2,830,703</u>	<u>\$ 1,214,447</u>
U. S. DEPARTMENT OF AGRICULTURE				
Commodities	10.550	Fund 51	\$ 32,270	\$ 32,270
School Breakfast	10.553	Fund 51	68,689	68,689
School Lunch Program	10.555	Fund 51	200,372	200,372
School Lunch Program	10.555	Fund 51	7,691	7,691
Summer Food Service for Children	10.559	Fund 51	7,116	7,116
Summer Sponsor	10.599	Fund 51	735	735
TOTAL U. S. DEPARTMENT OF AGRICULTURE			<u>\$ 316,873</u>	<u>\$ 316,873</u>
U. S. DEPARTMENT OF LABOR				
Passed through the Western Kentucky Private Industry Council				
Workforce Investment Act, FY 2004	17.255	4500-5885	16,201	16,201
Workforce Investment Act, FY 2004	17.255	4500-5884	25,705	318
TOTAL U. S. DEPARTMENT OF LABOR			<u>\$ 41,906</u>	<u>\$ 16,519</u>
			<u>\$ 3,189,482</u>	<u>\$ 1,547,839</u>

CRITTENDEN COUNTY BOARD OF EDUCATION

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year ended June 30, 2005

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Crittenden County Board of Education and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CRITTENDEN COUNTY BOARD OF EDUCATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2005

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weaknesses identified? _____ yes X no

Reportable conditions identified that are not considered to be material weaknesses _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weaknesses identified? _____ yes X no

Reportable conditions identified that are not considered to be that are not considered to be material weaknesses _____ yes X

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported required to be reported in accordance with section 510(a) of Circular A-133 _____ yes X no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I
84.027 Cluster	Special Education
10.555 Cluster	National School Lunch Program

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes _____ no

Section II -- Financial Statement Findings

There are no matters to be reported.

Section III -- Federal Award Findings and Questioned Costs

There are no matters to be reported.

CRITTENDEN COUNTY BOARD OF EDUCATION

SCHEDULE OF PRIOR YEAR FINDINGS Year Ended June 30, 2005

There were no findings in the prior year.

E DENNIS DRIVER

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Kentucky State Committee for School District Audits
Members of the Board of Education
Crittenden County Board of Education
Marion, Kentucky

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Crittenden County Board of Education as of and for the year ended June 30, 2005, which collectively comprise the Crittenden County Board of Education's basic financial statements and have issued my report thereon dated September 13, 2005. I conducted my audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and state audit requirements.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Crittenden County Board of Education's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Crittenden County Board of Education's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of my tests disclosed no instances of noncompliance with specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

Kentucky State Committee for School District Audits
Members of the Board of Education
Crittenden County Board of Education
September 13, 2005
Page 2

This report is intended solely for the information and use of the Board, management, the Kentucky Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "E. Renee Jones". The signature is fluid and cursive, with a large initial "E" and a long, sweeping underline.

September 13, 2005
Paducah, Kentucky

E DENNIS DRIVER

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Kentucky State Committee For School District Audits
Members of the Board of Education
Crittenden County Board of Education
Marion, Kentucky

Compliance

I have audited the compliance of the Crittenden County Board of Education with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The Crittenden County Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Crittenden County Board of Education's management. My responsibility is to express an opinion on the Board's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Crittenden County Board of Education's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Crittenden County Board of Education's compliance with those requirements.

In my opinion, the Crittenden County Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

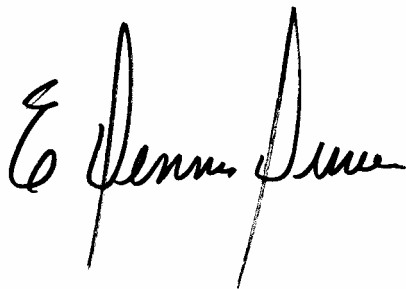
The management of Crittenden County Board of Education is responsible for establishing and maintaining effective internal controls over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Crittenden County Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in

Kentucky State Committee For School District Audits
Members of the Board of Education
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September 13, 2005
Page 2

relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the Board, management, the Kentucky Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "E. Dennis Jones". The signature is written in a cursive, flowing style with a large initial "E" and a long, sweeping underline.

Paducah, Kentucky
September 13, 2005

E DENNIS DRIVER

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September 13, 2005

To the Members of the Board of Education
Crittenden County Board of Education
Marion, Kentucky

I have examined the financial statements of Crittenden County Board of Education for the year ended June 30, 2005 and have issued my report thereon dated September 13, 2005. As part of my examination, I made a study and evaluation of the Crittenden County Board of Education's system of internal accounting control to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of my study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Crittenden County Board of Education's financial statements. My study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Crittenden County Board of Education is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the system to dispatch its duties.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of the Crittenden County Board of Education taken as a whole. We noted no matters involving internal control over financial reporting and its operation that I considered to be material weaknesses.

However, during my audit, I became aware of some matters that are opportunities for strengthening internal controls and operating efficiency.

Formation of an Audit Committee

The Sarbanes-Oxley Act, and other recently enacted legislation imposes additional duties on boards of directors. Although these laws do not directly impact the local board, since they primarily apply to publicly traded companies, they do provide insight and forewarning of what will probably be imposed by law, regulation or other authority.

One current requirement imposed on publicly-traded companies is that they have an audit committee. The purpose of the committee is to meet with the auditor, minimally at the inception of the audit and at its conclusion, to discuss concerns of the board and to allow the auditor to express any findings or concerns without the presence of any member of management. The absence of management will facilitate a more frank and open discussion should any matters arise that require attention. The audit committee should also meeting periodically with the district's financial management to discuss current accounting policies and procedures, internal controls and other matters that affect the financial aspects of the district and the preparation of its financial statements.

To the Members of the Board of Education
Crittenden County Board of Education
September 13, 2005
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This is not a requirement currently imposed on the Board; however, it is probably only a matter of time before it is imposed.

I recommend that the board form an audit committee, consisting of two or three members, to perform the functions described above. I believe that having a functioning audit committee will provide more oversight to management and provide the board itself with more and better information concerning the financial aspects of the district.

Fixed Assets

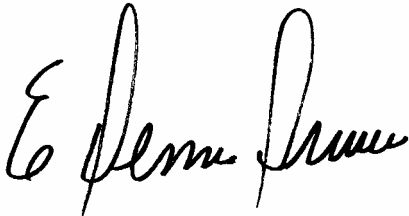
During the inventory of fixed assets, it was noted that some assets could not be located or were only located after a considerable search. Some of those not located were probably moved to other locations without a "paper trail" of the movement.

Various individuals are custodians of the Board's assets and are accountable for those assets. Consequently, all custodians should be aware of what assets they are accountable for and the location of those assets. If the location of an asset changes, the custodian changes, or the asset is retired or otherwise removed from service, it is the custodian's responsibility to submit the necessary forms to the central office so changes can be made to the Board's permanent asset records.

For assets borrowed or taken home for work outside school hours, sign out sheets should readily identify who borrowed the asset and what asset they borrowed.

I will review the status of these comments during my next audit engagement. I have already discussed these comments and suggestions with various Board personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Yours very truly,

A handwritten signature in black ink, appearing to read "E. Dennis Driver". The signature is fluid and cursive, with a large initial "E" and a long, sweeping underline.

E. Dennis Driver
Certified Public Accountant